

Message Text

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ACTION AF-18

INFO OCT-01 ARA-16 EUR-25 EA-11 NEA-14 ISO-00 FEA-02

AEC-11 AID-20 CEA-02 CIAE-00 CIEP-03 COME-00 DODE-00

EB-11 FPC-01 H-03 INR-11 INT-08 L-03 NSAE-00 NSC-07

OMB-01 PM-07 RSC-01 SAM-01 SCI-06 SP-03 SS-20 STR-08

TRSE-00 FRB-03 DRC-01 /218 W
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P R 231614Z JUL 74

FM AMEMBASSY LAGOS

TO SECSTATE WASHDC PRIORITY 5143

INFO AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMEMBASSY CARACAS

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LIBREVILLE 1404

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY QUITO

AMEMBASSY ROME

AMEMBASSY TEHRAN

AMEMBASSY THE HAGUE

AMEMBASSY TRIPOLI

USINTERESTS SECTION ALGIERS

US MISSION OECD PARIS

C O N F I D E N T I A L LAGOS 6753

E.O. 11652: GDS

TAGS: ENRG, NI

SUBJ: HIGHER ROYALTIES BUT POSSIBLY LOWER BUY-BACK PRICES
FOR NIGERIAN CRUDE OIL

REF: LAGOS 6205

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SUMMARY. HIGH BUY-BACK PRICE IN KUWAIT (REPORTEDLY 94.85 PERCENT OF POSTED PRICE) HAS CAUSED PRODUCING COMPANIES IN NIGERIA TO FEAR THAT GOVERNMENT WILL RENEGE ON \$12.50 BUY-BACK PRICE (85.09 PERCENT OF POSTED PRICE) AGREED EARLIER THIS MONTH. MEANWHILE, GOVERNMENT HAS UNILATERALLY DECREED NEW 14.5 PCT ROYALTY RATE WHICH RAISES TAX-PAID COST OF OFFSHORE OIL PRODUCED BY AMERICAN COMPANIES ABOUT TWICE AS MUCH AS ONSHORE OIL PRODUCED MOSTLY BY EUROPEAN COMPANIES. NEW INCREASE OF ROYALTY AND TAX REVENUE WOULD NOT WHOLLY COMPENSATE GOVERNMENT FOR REDUCED MARGINS ON PARTICIPATION OIL. AVERAGE COST OF NIGERIAN CRUDE IN JULY SHOULD BE ABOUT \$11.07 PER BARREL, 1.4 PERCENT LESS THAN JUN -- IF THE \$12.50 BUY-BACK AGREEMENT DOES NOT COME UNSTUCK.

1. EMBASSY HAS RECONSTRUCTED FOLLOWING SEQUENCE OF RECENT EVENTS REGARDING PRICES FOR NIGERIAN CRUDE OIL: FEDERAL MILITARY GOVERNMENT INVITED SHELL-BP JUNE 26 TO CONSULT WITH ALL PRODUCING COMPANIES AND PROPOSE INDUSTRY-WIDE BUY-BACK PRICES FOR THIRD QUARTER AND FOR "UNDERLIFTED" GOVERNMENT OIL DURING SECOND QUARTER. SHELL-BP SAID PROPOSALS WOULD DEPEND IN PART ON FMG DECISION REGARDING ROYALTY RATE. FMG REPLIED IT HAD "NOT YET RATIFIED THE QUITO DECISION" (WCLZAVQ ACCORDING TO ONE SOURCE) IMPLIED ROYALTY CHANGE WOULD BE POSTPONED. AFTER TALKING WITH SOME OTHER COMPANIES, SHELL-BP PROPOSED \$12.50 PER BARREL FOR REMAINING SECOND QUARTER AND ALL THIRD QUARTER OIL PURCHASED FROM GOVERNMENT. FMG ACCEPTED THIS FIGURE BUT WISHED RETAIN SEPARATE PRICES FOR SO-CALLED BUY-BACK OIL (50PCT OF THE GOVERNMENT'S 55PCT EQUITY SHARE WHICH THE COMPANIES HAVE A RIGHT TO BUY) AND OPTION OIL (25PCT OF THE GOVERNMENT'S 55PCT WHICH THE COMPANIES MAY BUY ON BASIS FIRST REFUSAL). \$12.42 THEREFORE ACCEPTED BY ALL PARTIES FOR FORMER AND \$12.66 FOR LATTER GIVING \$12.50 AVERAGE (85.09PCT OF POSTED PRICE). FMG SAID IT WOULD MARKET ITS REMAINING 25PCT STARTING IN AUGUST, BUT MEANWHILE THE COMPANIES COULD HAVE ALL "UNDERLIFTED" GOVERNMENT OIL (SECOND QUARTER AND JULY) FOR \$12.50.

2. EMBASSY IS NOT CERTAIN WHETHER SHELL-BP HAS RECEIVED WRITTEN CONFIRMATION OF THESE TERMS (ONE SOURCE SAYS YES, ANOTHER NO), BUT OTHER COMPANIES HAVE NOT. THEY FEAR THE FMG MAY RENEGE NOW THAT CONFIDENTIAL

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THE KUWAIT GOVERNMENT IS REPORTED TO HAVE INCREASED ITS BUY-BACK PRICE TO 94.85PCT OF POSTED PRICE.

3. MEANWHILE, ALL OPERATING COMPANIES IN NIGERIA RECEIVED LETTER FROM FMG AT END OF LAST WEEK INCREASING ROYALTY RATE EFFECTIVE JULY 1 TO UNIFORM 14.5PCT. MANAGING DIRECTOR OF ONE AMERICAN COMPANY TOLD EMBASSY SHELL-BP MAY LEAD INDUSTRY INTERVENTION THIS WEEK IN ORDER TO REGAIN "SEMBLANCE OF NEGOTIATION" WHICH "WE HAVE ALWAYS

SOUGHT TO MAINTAIN IN NIGERIA."

4. COMMENT. TENTATIVELY NEGOTIATED BUY-BACK PRICES FOR THIRD QUARTER ARE ABOUT 4.5 PERCENT LOWER THAN SECOND QUARTER. RESULTING REDUCTION IN TOTAL GOVERNMENT REVENUE (ABOUT \$.34 PER BARREL OF TOTAL PRODUCTION) IS GREATER THAN THE 2.0 PERCENT NET INCREASE IN TAX PAID COST CAUSED BY HIGHER ROYALTIES (ABOUT \$.18 PER BARREL OF TOTAL PRODUCTION). NET COST OF AVERAGE BARREL OF OIL FROM NIGERIA WOULD THEREFORE GO DOWN ABOUT \$.16 PER BARREL. THESE CHANGES AND SUMMARY OF OLD AND NEW OIL PRICES CONTAINED IN FOLLOWING TABLE:

	TAX-PAID COST			
	PERCENT	OR BUY-BACK COST		
	OF TOTAL	(\$ PER BBL FOB)	PERCENT	
	PRODUCTION	APR-JUNE	JULY	CHANGE

1- EQUITY OIL				
(AV EST COST)	45	9.08	9.26	PLUS 2.0

2. BUY-BACK OIL	27.5	13.00	12.42	-4.5
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3- OPTION OIL	13.75	13.25	12.66	-4.5
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4- "OVERLIFTED"

GOVT OIL	11.75?	12.50	12.50	SAME
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5- TOTAL FOR

COMPANIES	98	11.18	11.01	-1.5
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6- DIRECT SALE

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OIL	2?	14.00	14.00?	SAME?
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7- TOTAL OIL	100	11.23	11.07	-1.4
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5. NEW ROYALTY RATE IS 2 PERCENTAGE POINTS ABOVE FORMER ONSHORE ROYALTY OF 12.5 PCT AND 4.5 PERCENTAGE POINTS ABOVE FORMER OFFSHORE ROYALTY OF 10PCT. ALTHOUGH AVERAGE EFFECT IS 2.0 PERCENT INCREASE IN TAX-PAID COST OF EQUITY OIL, FOLLOWING CALCULATION DEMONSTRATE THAT INCREASE IS ROUGHLY TWICE AS HIGH FOR OFFSHORE PRODUCERS (GULF AND MOBIL) AS FOR ONSHORE PRODUCERS (SHELL-BP, AGIP/PHILLIPS, AND ELF):

ONSHORE	OFFSHORE	ALL
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PRODUCERS PRODUCERS COMPANIES

JAN TO JAN TO JAN TO
JUNE JULY JUNE JULY JUNE JULY1- POSTED PRICE 14.691 14.691 14.691 14.691 14.691 14.691
1

2- AVERAGE GRAVITY (DEG) 32.7 32.7 36.8 36.8 33.9 33.9

3- GRAVITY DIFFERENTIAL -0.03 -0.03 -/-0.12 -/-0.12 0 0

4- ADJUSTED P PRICE (1-/-3) 14.66 14.66 14.81 14.18 14.69 14.69

5- AVERAGE ROYALTY RATE 12.4PCT 14.5PCT 10.0PCT 14.5PCT 11.7PCT 1
4.5

6- AVERAGE ROYALTY (4-/-5) 1.82 2.13 1.48 2.15 QMUW WMQE

7- EST AV PRODUCING COST .43 .43 .61 .61 .50 .50

8- AVERAGE TAX
(4-6-7X55PCT) 6.83 6.66 7.00 6.63 6.86 6.639- AV TAX PD COST
(6-/-7-/-8) 9.08 9.22 9.09 9.39 9.08 9.26

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10- PERCENT INCREASE -/-1.5PCT -/-3.3PCT -/-2.
0

NOTE: -/- IS PLUS SIGN

6. FINALLY, IT SHOULD BE NOTED THAT THE GOVERNMENT'S WISH THAT SHELL-BP WOULD REPRESENT ALL COMPANIES IN BUY-BACK PRICE NEGOTIATIONS CREATED ANTI-TRUST DIFFICULTIES FOR THE AMERICAN COMPANIES. EMBASSY UNDERSTANDS THEY (UNLIKE AGIP AND ELF) REFUSED TO ATTEND COMPANY MEETINGS WHERE PRICE MIGHT BE DISCUSSED. THE AMERICAN COMPANIES ARE THEREFORE IN POSITION OF HOPING FMG WILL CONCLUDE SAME DEAL WITH THEM IT NEGOTIATED WIT OTHERS.

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